

## Message Text

CONFIDENTIAL

PAGE 01 REYKJA 00597 301504Z

53

ACTION EUR-25

INFO OCT-01 ISO-00 OPR-02 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 COA-02 INT-08 AGR-20 OC-06 CCO-00 PM-07 H-03

L-03 PA-04 PRS-01 USIA-15 DRC-01 /211 W

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R 301300Z APR 74

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC 4482

INFO SECDEFENSE WASHDC

AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY LONDON

AMEMBASSY STOCKHOLM

CINCLANT

COMICEDEFOR

USMISSION NATO

C O N F I D E N T I A L REYKJAVIK 0597

E.O. 11652: GDS

TAGS: PFOR, MARR, IC, ECON

SUBJECT: STABILITY OF THE ICELANDIC GOVT: THE ECONOMIC CRISIS  
AND THE IDF ISSUE

1. SUMMARY: POLITICAL MANEUVERING CONTINUES IN ICELAND  
REGARDING THE SEVERE ECONOMIC CRISIS WHICH THREATENS TO BRING  
DOWN THE CURRENT LEFTIST COALITION GOVT. POLITICIANS IN ALL  
POLITICAL PARTIES (INCLUDING PRESENT COALITION GOVT) SAY  
THE QUESTION IS NOT WHETHER THE GOVT WILL FALL, BUT WHEN IT  
WILL FALL; WHAT TYPE OF INTERIM GOVT WILL ACT AS CARETAKER;  
AND WHEN NEW ELECTIONS WILL TAKE PLACE. NO ACTION IS EXPECTED  
ON IDF RETENTION ISSUE UNTIL AFTER ELECTIONS.

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PAGE 02 REYKJA 00597 301504Z

END SUMMARY.

2. THE SITUATION AS OF APRIL 26 WAS THAT BOTH THE PEOPLES ALLIANCE (PA) AND THE OLL (HANNIBAL VALDIMARSSON'S PARTY) REFUSED TO SUPPORT THE PRIME MINISTER'S PROPOSALS, WHICH CALL FOR A PRICE FREEZE, DISENGAGEMENT OF WAGES FROM COST-OF-LIVING INDEX, ROLLBACK OF THE FEBRUARY GENERAL WAGE INCREASE TO 20 PERCENT FROM A LEVEL WHICH WAS IN EXCESS OF 25 PERCENT AND IN SOME CASES 45 PERCENT, FORCED SAVINGS ABOVE A CERTAIN LEVEL OF INCOME, HIGHER BANK RESERVES, LIMITATION ON CONSTRUCTION OTHER THAN HOMES AND APARTMENTS, A FLEXIBLE EXCHANGE RATE OR AN OUTRIGHT DEVALUATION OF THE KRONUR AND REDUCTION OF GOVT EXPENDITURES. THE STUMBLING BLOCK FOR PA WAS THE POLITICALLY-EXPLOSIVE ROLLBACK OF WAGES AND THE DISENGAGEMENT OF WAGES FROM COST-OF-LIVING INDEX. THE OLL'S POSITION WAS THAT THEY WOULD SUPPORT PRIME MINISTER'S PROPOSALS ON THESE POINTS ONLY IF LABOR AND EMPLOYERS ASSOCIATIONS WERE CONSULTED, WHICH PRIMEMIN REFUSED TO DO. IF NO ACTION ON WAGES/INDEX MATTER TAKEN BY JUNE 1, WAGES ACROSS THE BOARD WILL AUTOMATICALLY RISE BY 13 PERCENT - 15 PERCENT. IF THIS HAPPENS, ACROSS-THE-BOARD WAGES WILL HAVE RISEN IN THE FIRST 5 MONTHS OF THIS CALENDAR YEAR BY AT LEAST 45 PERCENT, AND THE PROGNOSIS OF AN ULTIMATE WAGE INCREASE OF 60 PERCENT AND THE COST-OF-LIVING INCREASE OF 45 PERCENT FOR THE YEAR WILL BE A REALITY.

3. ICELAND'S FOREIGN EXCHANGE RESERVES DECLINED 29 PERCENT IN THE FIRST QUARTER OF THIS YEAR. AS OF MARCH 31 THEY WERE \$49 MILLION OR ABOUT 1 1/2 MONTHS' IMPORTS. FISH EXPORTERS AND MANUFACTURERS FOR THE DOMESTIC MARKET ARE OPERATING AT LOSSES WHICH CANNOT BE TOLERATED FOR LONG. FISH PRICES IN USA HAVE DECLINED ABOUT 17 PERCENT AND ICELANDERS RECENTLY SETTLED FOR A PRICE 40 PERCENT LESS ON FISHMEAL SOLD TO POLAND THAN WAS OBTAINABLE IN DECEMBER. NEWSPAPERS HAVE BEEN ON STRIKE FOR THE PAST 5 WEEKS WITH NO INDICATION OF AN EARLY SETTLEMENT. SHIPS MATES ARE ALSO ON STRIKE AND THE COMMERCIAL FLEET IS NEAR TOTAL PARALYSIS, A CATASTROPHE FOR A COUNTRY SUCH AS ICELAND WHICH DEPENDS SO MUCH ON IMPORTS. ON APRIL 28 HOSPITAL NURSES GAVE NOTICE OF WALKING OFF THE JOB. APRIL 29 TELEPHONE REPAIRMEN WENT ON STRIKE, WHICH WILL CAUSE CHAOS IN THE LOCAL TELEPHONE SYSTEM BY THE END OF THE WEEK. GOVT AND MUNICIPAL  
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PAGE 03 REYKJA 00597 301504Z

EMPLOYEES WHO RECEIVED THE LOWEST PAY INCREASES THIS YEAR, ARE THREATENING TO STAY HOME STARTING NEXT WEEK.

4. OVER THE WEEKEND THE PRIME MINISTER SOUGHT AND RECEIVED HIS PARTY'S APPROVAL TO SUBMIT HIS ECONOMIC PROPOSALS TO ALTHING WITHOUT THE APPROVAL OF HIS COALITION PARTNERS. IF HE TAKES THIS ACTION HIS GOVT WILL FALL IMMEDIATELY THEREAFTER. IT WAS EXPECTED HE WOULD SUBMIT HIS PROPOSALS TO THE ALTHING ON MAY 2

OR 3. HE MAY, HOWEVER, DELAY UNTIL NEXT WEEK IN ORDER TO MAKE ANOTHER ATTEMPT TO GAIN COALITION SUPPORT. IT IS NOT INCONCEIVABLE FOR HIM TO SUCCEED, BUT THE OPPOSITION MAY STILL HAVE THE VOTES IN THE LOWER HOUSE TO BRING DOWN THE GOVT.

5. AN INFORMED SOURCE REPORTED THAT YESTERDAY COMMUNIST MAGNUS KJARTANSSON OFFERED TO SUPPORT PRIMEMIN ON ECONOMIC MEASURES IF LATTER IN TURN WOULD SUPPORT RESOLUTION CALLING FOR USG TO REPLY TO GOI'S BASE RETENTION PROPOSALS BY JULY 1ST AND TERMINATION OF DEFENSE AGREEMENT IF REPLY NOT SATISFACTORY. PRIMEMIN REFUSED, STATING HE WOULD NOT PERMIT ASSOCIATION OF THE ECONOMIC AND DEFENSE ISSUES.

6. IT WAS ALSO REPORTED THAT PRIMIN IS SEEKING APPROVAL OF INDEPENDENCE AND SOCIAL DEMOCRATIC PARTIES FOR A FOUR-PARTY INTERIM CARETAKER GOVT, EXCLUDING PEOPLES ALLIANCE, AND IF HE MEETS WITH FAILURE, THEN APPROVAL FOR A PROGRESSIVE PARTY MINORITY CARETAKER GOVT WITH ELECTIONS TO BE CALLED FOR SEPTEMBER OR ANYTIME AFTER 1100TH ANNIVERSARY CELEBRATION JULY 28. IF INDEPENDENCE PARTY AGREES TO ANY FORMULA FOR A CARETAKER GOVT IT WILL BE WITH STIPULATION THAT NO ACTION WILL BE TAKEN ON DEFENSE ISSUE UNTIL AFTER NEW ELECTIONS.

7. YESTERDAY THE COALITION PARTNERS AUTHORIZED THE PRIMEMIN TO DISSOLVE ALTHING AND CALL FOR NEW ELECTIONS IN FALL IF HE DETERMINES SITUATION WARRANTS.

8. COMMENT: LEADERS OF ALL POLITICAL PARTIES AGREE THAT THE LIFE OF THE PRESENT GOVT IS SHORT AND THAT NEW ELECTIONS WILL BE HELD BY SEPTEMBER AT THE LATEST. WHEN THE GOVT FALLS, IT WILL BE ON THE ECONOMIC ISSUE AND NOT ON THE DEFENSE ISSUE. ALL AGREE, HOWEVER, THAT UNLIKE IN THE ELECTION OF 1971 WHICH BROUGHT IN THE PRESENT GOVT, THE BASE RETENTION QUESTION WILL

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PAGE 04 REYKJA 00597 301504Z

INDEED BE AN ELECTION ISSUE. NO ONE EXPECTS ADVERSE ACTION ON THE IDF BETWEEN NOW AND THE ELECTIONS, BUT THIS EMBASSY AND COMICEDEFOR STAFF CAN EXPECT A BUSY SUMMER. THE CURRENT BETTING IS THAT THE INDEPENDENCE PARTY WILL FORM THE NEW GOVT AFTER ELECTIONS AND THE IDF RETENTION ISSUE WILL BE SETTLED SOON THEREAFTER ON A BASIS SATISFACTORY TO USG AND ICELAND.  
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## Message Attributes

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